

Message Text

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PAGE 01 BONN 14965 01 OF 02 071700Z

65

ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 EURE-00 AGR-05 AGRE-00 DODE-00 PM-04

/109 W

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P R 071644Z SEP 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 1639

DEPARTMENT TREASURY PRIORITY

INFO AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION USBERLIN

USMISSION NATO BRUSSELS

USDEL MTN GENEVA

USNMR SHAPE

AMCONSUL FRANKFURT

AMCONSUL MUNICH

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL HAMBURG

AMCONSUL STUTTGART

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 14965

DEPARTMENT PASS FRB AND CEA

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PAGE 02 BONN 14965 01 OF 02 071700Z

TREASURY FOR MR. SYVRUD

E.O. 11652: N/A

TAGS: EFIN, ECON, GW

SUBJECT: EMBASSY GNP FORECAST FOR 1976 AND 1977

REF: (A) BONN 9068; (B) BONN 14764

1. THE FIRST HALF GNP RESULTS ARE IN (REFTEL B) AND REFLECT 8.2 PERCENT REAL GNP GROWTH (S.A.A.R.), OR ABOUT WHAT WAS EXPECTED. HOWEVER, THE INGREDIENTS OF THIS GROWTH WERE SOMEWHAT DIFFERENT THAN EXPECTED. PERSONAL CONSUMPTION WAS MUCH WEAKER THAN ANTICIPATED, BUT THIS WAS OFFSET BY LARGER GAINS FROM STOCK BUILDING THAN PREVIOUSLY EXPECTED.

2. LOOKING AHEAD TO THE SECOND HALF OF 1976, WE ADJUSTED SLIGHTLY DOWNWARD OUR PREVIOUS FORECAST IN THE LIGHT OF FIRST HALF DEVELOPMENTS AS WELL AS THE NEW ORDERS FORWARD INDICATOR. THIS LED TO THE CONCLUSION THAT THE SECOND HALF GNP WOULD ONLY GROW 1.3 PERCENT (S.A.A.R), GIVING A FULL YEAR 5.6 PERCENT REAL GROWTH FOR 1976. UNDERLYING THIS NEW FORECAST FOR 1976 ARE, MOST IMPORTANTLY, A LOWERED RATE FOR PRIVATE CONSUMPTION, SLIGHTLY REDUCED INVESTMENT IN MACHINERY AND EQUIPMENT, WHICH WAS OFFSET BY A STRONGER CONSTRUCTION SECTOR THAN PREVIOUSLY THOUGHT, AND A BIT MORE INVENTORY ACCUMULATION THAN ORIGINALLY PROJECTED.

3. THE 1977 REAL GROWTH WE FORECAST IS 4.5 PERCENT, ONE PERCENTAGE POINT BELOW 1976'S RECORD AND WHAT THE FRG IS RUMORED TO FORESEE FOR NEXT YEAR. THE EMBASSY'S FORECAST IS BASED ON A STRONGER PRIVATE CONSUMPTION PERFORMANCE STEMMING FROM HIGHER WAGE INCREASES (PERHAPS NEAR 10 PERCENT RATHER THAN THE APPROXIMATE 8 PERCENT THE GOVERNMENT IS THINKING ABOUT) AND THE IMPACT FROM THE EXPIRATION OF CERTAIN GOVERNMENTAL SAVINGS INCENTIVE PROGRAMS. IT IS ALSO PREDICATED ON A STRONGER INVESTMENT PROPENSITY DERIVING FROM THE FULLER CAPACITY UTILIZATION THAT WILL PREVAIL NEXT YEAR. BENEFITS FROM LIMITED OFFICIAL USE

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PAGE 03 BONN 14965 01 OF 02 071700Z

A SWING IN INVENTORY ACCUMULATION WILL BE MUCH LESS A FACTOR.

4. WE THINK PRICE INCREASES MIGHT SPEED UP SOMEWHAT IN THE SECOND HALF OF 1976 AND CONTINUE INTO 1977. HEALTHY WAGE SETTLEMENTS, HIGHER RAW MATERIALS, FOOD, AND FUEL PRICES, AND TIGHTER SUPPLY SITUATIONS ALL WILL CONTRIBUTE TO THIS PHENOMENON. THE PRIVATE CONSUMPTION

DEFLATOR, WHICH WAS 4.6 IN THE FIRST HALF OF 1976 MIGHT WELL GO TO 6.3 PERCENT (INCIDENTALLY, THE SAME CURRENT RATE OF THE SEASONALLY ADJUSTED CPI) IN THE SECOND HALF. FOR THE FULL YEAR 1976, THIS DEFLATOR IS PROJECTED BY THE EMBASSY TO BE 5.5 PERCENT, AND FOR 1977, 6.0 PERCENT. THE TOTAL GNP DEFLATOR IS LIKELY TO BE AROUND 4 PERCENT THIS YEAR, RISING TO 5 PERCENT NEXT YEAR. THIS YIELDS 9.5 PERCENT NOMINAL GNP GROWTH IN BOTH YEARS AS CONTRASTED WITH THE ECONOMIC MINISTRY'S 10 PERCENT NOMINAL GROWTH FORECAST JUST RECENTLY MADE IN CONNECTION WITH A TAX REVENUE ESTIMATING EXERCISE. WE UNDERSTAND THAT THE BUNDESBANK HAD THE SAME 9.5 PERCENT ESTIMATE AS THE EMBASSY. THE IMPORTANT DIFFERENCE LIES IN THEIR ASSUMPTIONS REGARDING THE DEFLATOR, AND ON THIS SUBJECT WE SHALL REPORT LATER.

5. PERTINENT TABLES FOLLOW:

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PAGE 01 BONN 14965 02 OF 02 071701Z

65

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INFO OCT-01 EA-07 IO-13 ISO-00 AID-05 CIAE-00 COME-00

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STR-04 CEA-01 EURE-00 AGR-05 AGRE-00 DODE-00 PM-04

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P R 071644Z SEP 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 1640

DEPARTMENT TREASURY PRIORITY

INFO AMEMBASSY PARIS

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 USDEL MTN GENEVA
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LIMITED OFFICIAL USE SECTION 02 OF 02 BONN 14965

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PAGE 02 BONN 14965 02 OF 02 071701Z

TABLE I

EMBASSY FORECAST 1976 REAL GNP
 SEASONALLY ADJUSTED ANNUAL RATE (1962 PRICES)

SEMI-ANNUAL

1ST HALF 1976 1/ 2ND HALF 1976
 DM BILL PERCENT DM BILL PERCENT

PRIVATE CONSUMPT	175.8	0.8	180.2	5.0
PUBLIC CONSUMPT	44.6	2.7	44.1	-2.2
FIXED INV.	69.9	6.8	69.5	-1.2
MACH & EQMT	37.3	9.5	36.4	-4.8
CONST	32.6	3.8	33.1	3.0
CHG IN INV	6.8	(13.6)	6.2	(12.4)
NET FOR BAL	6.1	(12.2)	5.9	(10.2)
EXPORTS	111.6	13.8	114.0	4.3
IMPORTS	105.5	14.9	108.1	4.9
GNP (REAL)	303.2	8.2	305.1	1.3

GNP (NOMINAL)	562.5	10.9	580.1	6.3
GNP DEFLATOR	2.7		5.2	
PRIVATE CONS (NOM)	305.3	5.4	322.5	11.3
PRIVATE CONS DEFLATOR	4.6		6.3	

1/ FIRST HALF 1976 ACTUAL RESULTS PER DIW

TABLE II

EMBASSY FORECAST 1976 AND 1977 REAL GNP
SEASONALLY ADJUSTED ANNUAL RATE (1962 PRICES)

ANNUAL

	FULL YEAR 1976		FULL YEAR 1977	
	DM BILL	PERCENT	DM BILL	PERCENT

PRIVATE CONSUMPT	356.0	2.7	368.5	3.5
PUBLIC CONSUMPT	88.7	2.0	90.5	2.0
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PAGE 03 BONN 14965 02 OF 02 071701Z

FIXED INV.	139.4	4.6	147.1	5.5
MACH & EQMT	73.7	5.9	78.8	7.0
CONST	65.7	4.0	68.3	4.0
CHG IN INV	13.0		15.4	
NET FOR BAL	12.0		15.0	
EXPORTS	225.6	10.0	243.6	8.0
IMPORTS	213.6	11.0	228.6	7.0
GNP (REAL)	609.1	5.6	636.5	4.5

GNP (NOMINAL)	1142.7	9.5		9.5
GNP DEFLATOR		3.9		5.0
PRIVATE CONS (NOM)	627.8	8.2		9.5
PRIVATE CONS DEFLATOR		5.5		6.0
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